Nostrum Oil & Gas PLC

Interim financial report

For the six months ended 30 June 2019

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Interim management report

For the six months ended 30 June 2019

Business review

Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.

Overview

Nostrum Oil & Gas PLC (the "Company" and together with its subsidiaries the "Group" or "Nostrum") is an independent oil and gas enterprise engaged in the exploration and production of oil and gas products in North-Western Kazakhstan. Nostrum, through its indirectly wholly-owned subsidiary Zhaikmunai LLP, is the owner and operator of four fields in Kazakhstan, the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields. The Group's primary field and licence area, which has been the Group's sole source of production to date, is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin.

The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan Oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. The Group conducts its operations in the Chinarevskoye Field pursuant to a subsoil use licence (the "Licence") and an associated production sharing agreement ("PSA"). Based on the Ryder Scott Report dated 1 January 2019, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 294 million boe, of which 110 million bbl was crude oil and condensate, 42 million bbl was LPG and 142 million boe was sales gas.

Nostrum's operational facilities in the Chinarevskoye Field consist of an oil treatment unit currently with a maximum annual throughput capacity of 400,000 tonnes of crude oil, multiple oil gathering and transportation lines including a 120 kilometre oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometre gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, storage facilities, an employee field camp and a gas treatment facility. The first phase of the gas treatment facility, consisting of two gas treatment units, became fully operational in 2011 and has enabled Nostrum to produce marketable liquid condensate (a product lighter than Brent crude oil) and LPG from the gas condensate stream. During 2017, the Company completed an extension to its existing oil pipeline to connect it into the Atyrau-Samara international export pipeline operated by KazTransOil ("KTO pipeline"). Currently the Company exports all of its crude oil via the KTO pipeline.

Following the successful completion of the first phase of its gas treatment facility, Nostrum commenced the building of a third gas treatment unit to increase the operating capacity and production of liquid hydrocarbons, the mechanical completion of which was achieved in December 2018. The hot commissioning of the unit with first gas entering the facility started in May 2019.

Nostrum has rights to 100% of the subsoil use related to three oil and gas fields in the pre-Caspian Basin to the North-west of Uralsk, namely the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields, located in the Pre-Caspian basin to the North-West of Uralsk, approximately 60 to 120 kilometres from the Chinarevskoye field. These development fields are approximately 139 square kilometres in size. During the development phase, the Group will explore the three fields under short term exploratory licenses which are subject to periodic renewal. During 2016, the Group drilled an appraisal well at Rostoshinskoye. The results of this appraisal well were evaluated in 2017 and changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field. An independent reserve report by Ryder Scott dated 1 January 2019 has shown Nostrum has in these three adjacent fields 116 mmboe of net probable reserves and estimated contingent resources of 16 million boe of liquids and 269 billion cubic feet of sales gas.

During 2018, Nostrum entered into binding agreements to process third party hydrocarbons delivered by UOG from the Rozhkovskoye field which is situated less than 20km from the Chinarevskoye field. UOG will fund the connection of existing wells at the Rozhkovskoye field to Nostrum's licence area. Thereafter, Nostrum will process all of the hydrocarbons coming into the field. UOG is a company owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%). The commercial terms comprise two parts. Firstly, a tolling fee for the stabilisation of liquid condensate which will be US$8 per barrel, and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery to Nostrum's facilities. The pre-salt Rozhkovskoye gas condensate field was discovered in 2008 on the Fedorovsky exploration block by UOG. The field has broadly analogous geology to the Chinarevskoye field, with its primary Tournaisian (Lower Carboniferous) reservoir tested positive for gas-condensate in all nine exploration and appraisal wells drilled by UOG. The Tournaisian consists of shallow marine limestones at 4,200-4,600 metres. The Bobrikovski horizon (Lower Carboniferous) also contains gas-condensate. In 2014, an oil discovery was announced in the Bashkirian (Upper Carboniferous). In April 2015, UOG signed a 25-year production contract for the Rozhkovskoye field, demonstrating a commitment to developing its licence area.

Business strategy

Nostrum's long-term objective is to become one of the leading independent oil and gas exploration and production companies in the FSU. Our strategy for future growth is centred around achieving the following goals and objectives for 2019:

Maintain stable production levels while operational issues are addressed

The Group is focused upon stabilising production by concentrating drilling capex on production wells and growing proven reserves through drilling six wells in 2019 with a two-rig drilling programme and connecting existing wells to the Low-Pressure System and full commissioning of GTU3 to increase liquid production efficiency. The objectives towards achievement of these goals is to maintain the production levels above 30,000 boepd with 28,000 boepd sales volumes, prolonging the life of existing wells to maximise the extraction of 2P reserves and appraisal of Northern area of the Chinarevskoye field. Accordingly, comprehensive technical work is being finalized and the Group focused on an appraisal drilling programme in H1 2019 in the Northern Area of the Chinarevskoye field where well 724 and 40 discoveries were made in 2017 and 2018. The drilling programme is conducted with two drilling rigs on the Chinarevskoye field. When the results of these appraisal wells are known the Company will be able to decide how best to proceed with the drilling programme for the remainder of the year. Nostrum remains on target towards achievement of these goals with sales volumes for 2019 H1 at 29,210 boepd. Moreover, in May 2019 the Group commenced hot commissioning of GTU3 and first gas has entered the facility as part of the hot commissioning process.

Continued cost reduction

Nostrum has targeted further cost reductions in both G&A and operating expenses against 2018 levels and focus on bringing drilling costs and related capex as low as possible. Specifically, the targets for 2019 were set to achieve G&A below US$20 million, operating costs below US$55 million and drilling capex below US$70 million, and an overall target of 20% cost reduction by 2021. During H1 2019 the Group has been successfully implementing its cost reduction initiative and achieved considerable decreases in costs as compared to H1 2018.

2P reserve growth through M&A

Nostrum is focused on growing its 2P reserves through continuously monitoring M&A opportunities in a tie-back radius of the Group's existing infrastructure. The acquisition of 120 million boe of 2P reserves in the Trident fields for a total consideration of US$16 million was the first acquisition made pursuant to a strategy of consolidating stranded gas assets in 2013. In June 2019 Nostrum has agreed, subject to certain conditions, to acquire 50% of Positive Invest LLP ("Positive Invest"), which holds the subsoil use rights to the Stepnoy Leopard licences in North Western Kazakhstan, for US$500,000. Nostrum has the right to buy the remaining 50%, subject to the satisfaction of certain additional conditions, at a price of US$0.27 cent per boe of proven and probable reserves. Management estimates that the Stepnoy Leopard licences could hold up to 452 mmboe of in place volumes of which up to 200 mmboe could be reported as Contingent Resources and over 20% estimated to be liquids. Further details are disclosed in the Material Events section below. Nostrum continues to look at opportunities to grow its reserve base.

Also, in August 2018 the Company signed a binding agreement to process third party hydrocarbons produced by Ural Oil & Gas LLP (UOG). UOG is a company that is owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%). According to the 2017 KMG Annual Report, the related Rozhkovskoye field has 196 million boe 2P reserves booked. This is an alternative to acquiring reserves and resources whereby Group will be generating a return through processing hydrocarbons delivered by UOG only by allocating GTU processing capacity without material capital expenditures.

Integrating corporate responsibility into the business

During the Group's long presence in Kazakhstan it has built a comprehensive corporate social responsibility roadmap focusing upon employee security and welfare, investment in community building and environmental protection and reporting. The Group recognises that corporate social responsibility is key to the sustainability and success of our business and we are regularly developing internal best practices to improve standards. In 2019 the Company seeks to increase its presence in local communities and report on the wellbeing of employees and their working environment. Workplace safety rates are measured by the number of man hours without loss (millions), and for H1 2019 the Lost Time Injury Frequency was 1.40 (target 2.00). Moreover, the Company's Board of Directors established a Health, Safety, Environment and Communities Committee of the Board, effective 1 March 2019, as part of the Company's initiatives to further develop its sustainability practices across the Company and its operations and take further steps in its commitment to improve overall health, safety, environmental and social performance and better address important issues such as climate change and gender diversity. The HSEC Committee works closely with Company management and reports on its activities to the full Board.

Focusing on delivering shareholder value

The Group aims to strike a balance between reinvesting in future growth and returning cash to the shareholders. The key priorities in this area for 2019 have been defined as preserve capital while operational issues at Chinarevskoye are addressed and start generating positive post-tax free cash flow after full commissioning of GTU3. The Group remains on target with its KPIs of having approximately US$100 million of cash at the end of 2019 and maintaining minimum of US$50 million of cash at all times. The Group has achieved a near-break even position in generating free cash flows post tax during H1 2019, and aims to generate positive free cash flows post tax during H2 2019 with GTU3 fully commissioned.

Material events

Proposed Acquisition of Stepnoy Leopard

In June 2019 Nostrum agreed, subject to certain conditions, to acquire 50% of Positive Invest, which holds the subsoil use rights to the Stepnoy Leopard licences in North Western Kazakhstan, for US$500,000. Nostrum has the right to buy the remaining 50%, subject to the satisfaction of certain additional conditions, at a price of US$0.27 cent per boe of proven and probable reserves. The acquisition of 100% of Positive Invest is referred to herein as the "Proposed Acquisition".

Management estimates that the Stepnoy Leopard licences could hold up to 452 mmboe of in place volumes of which up to 200 mmboe could be reported as Contingent Resources and over 20% estimated to be liquids. There are eight fields within the licences with over 100 wells drilled in the Soviet era which have confirmed hydrocarbons to be present. The resources are considered by management to be contingent as the licences expire in 2020. One of the conditions precedent required by Nostrum for its acquisition of the remaining 50% in Positive Invest is the extension of the licences by 25 years. In addition, Nostrum requires, as a condition precedent, the approval of a development programme which allows the raw gas from the fields to be treated in Nostrum's gas processing facilities.

The Proposed Acquisition ensures Nostrum ties in further resources in the region surrounding its gas processing facility that can be processed at the Group's gas treatment facilities. The Proposed Acquisition is structured in a two-step process. In the event that the conditions for the second step are not met then Nostrum has the right to transfer back to the sellers the 50% interest in Positive Invest and the initial consideration of US$500,000 will be repaid to Nostrum.

Key Highlights of the Proposed Acquisition

- Stepnoy Leopard licences are located approximately 60-120km west of Nostrum's Chinarevskoye field, 20km from its Rostoshinskoye field and within 10km of its oil and condensate loading terminal at Beles;
- Stepnoy Leopard consists of two licences with eight fields shown to contain hydrocarbons. Of the eight fields, four fields are gas condensate fields and four are gas condensate fields with oil rims;
- in excess of 100 wells across the 8 fields were drilled during the Soviet era, confirming the existence of hydrocarbons at Stepnoy Leopard at a depth of around 3,000 metres. The project was not developed due to a lack of infrastructure to support the economic development of the fields;
- Nostrum will work with Positive Invest to determine the field development plans for each of the eight fields at Stepnoy Leopard and submit them to the Republic of Kazakhstan's Ministry of Energy ("Ministry of Energy") for approval. Such approvals are a condition precedent for completion of the second step of the Proposed Acquisition;
- a Competent Person's Report ("CPR") is being prepared by Ryder Scott Company, LP ("Ryder Scott") to provide an estimate of reserves and resources for Positive Invest which will be included in the circular to shareholders referred to below. In connection with step 2 of the Proposed Acquisition, Ryder Scott will deliver a second updated report once both licences have been extended to determine the number of proven and probable reserves in the fields. Nostrum will pay the sellers a total price for the Proposed Acquisition equivalent to US$0.27 per boe of proven and probable reserves as certified by Ryder Scott;
- the licences are currently due to expire in March 2020, but an application will be made for a 25-year extension. Approval of this extension is another condition precedent to step 2 of the Proposed Acquisition being completed.

Overview of the Proposed Acquisition

A Sale and Purchase Agreement ("SPA") has been entered into between Mr. Nurzhan Bekshenov and Mr. Vyacheslav Kim (the "Sellers"), Nostrum Oil & Gas Coöperatief U.A., a wholly owned subsidiary of Nostrum, and Positive Invest for the acquisition by Nostrum of a 100% interest in Positive Invest (which holds 100% of the subsoil use rights to the Stepnoy Leopard fields).

The Proposed Acquisition is to be completed in two steps. Step 1 is for the acquisition of 50% of Positive Invest for consideration of US$500,000. Step 1 will be conditional upon, inter alia,:

- consent being granted by the Ministry of Energy for the transfer of ownership of up to 100% of Positive Invest;
- approval being given by the Republic of Kazakhstan under applicable antimonopoly regulations in Kazakhstan; and
- the publication of a circular and the approval of shareholders for the Proposed Acquisition at a general meeting of the Company.

Following completion of Step 1 of the Proposed Acquisition, a loan of up to US$1 million may be made to Positive Invest, to fund its working capital during the course of satisfying the conditions precedent for the Proposed Acquisition.

Step 2 of the Proposed Acquisition will see the acquisition by Nostrum of the remaining 50% of Positive Invest. The consideration for Step 2 will be based on a price of US$0.27 per boe of proven and probable reserves to be acquired (as per an updated report to be prepared by Ryder Scott). The aggregate consideration for the Proposed Acquisition is to be capped at US$52,995,000. Step 2 will be conditional upon, inter alia,:

- consent being granted by the Ministry of Energy to extend the licence by 25 years;
- approval being granted by the Ministry of Energy of the field development plans for the Stepnoy Leopard licence; and
- issuance of the updated Ryder Scott report;

US$2.5 million will be retained from the consideration paid for a period of 14 months from completion of Step 2 of the Proposed Acquisition as security against potential warranty and indemnity claims.

The Sellers have no role within Nostrum and following completion of the Proposed Acquisition no former shareholders or employees of Positive Invest will hold any role within Nostrum.

The SPA has a long stop date of 3 March 2020, by which time all conditions precedent in relation to the Proposed Acquisition must be achieved. If any of the conditions precedent are not met or the Proposed Acquisition is terminated, the Sellers will be required to repurchase the 50% interest in Positive Invest initially acquired by Nostrum for US$500,000 and to repay any outstanding amount under any loan made to Positive Invest.

As noted above, the Proposed Acquisition is conditional on, inter alia, the approval of shareholders at a general meeting of the Company. A shareholder circular convening the general meeting and setting out further details on the acquired assets and the rationale for the Proposed Acquisition will be published and posted to shareholders in due course. The Company will make a further announcement about the timing of the shareholder meeting when it publishes the circular.

Financial effects of the Proposed Acquisition on Nostrum

Step 1 of the Proposed Acquisition is expected to have a very limited financial impact on Nostrum, with up front consideration of US$500,000 and a loan to Positive Invest of up to US$ 1 million.

The total aggregate consideration can be funded out of Nostrum's existing cash reserves. Nostrum is however considering alternative solutions in the context of the broader strategic review that is being carried out as announced by the Company on 24 June 2019.

The future development of Stepnoy Leopard will be determined in the development programme to be approved by the authorities in Kazakhstan. The development concept foresees the construction of a raw-gas pipeline to the Chinarevskoye gas processing facilities. In the event of a full field development management expects the all in finding and development costs to be under US$3 per 2P boe.

Positive Invest has no material assets outside of owning the Stepnoy Leopard licences. As of 31st December 2018, prior to acquiring the licences, Positive Invest had unaudited accounts showing gross assets of approximately US$108,785 all in the form of cash, no revenues and a loss before tax of approximately US$33,366 (all of which were administrative expenses).

The Proposed Acquisition constitutes a Class 1 Transaction under the Listing Rules and is therefore subject to, inter alia, the publication of a circular and the approval of shareholders at a general meeting of the Company.

Assessment of Strategic & Operational Options for Nostrum

In June 2019 the Board has commenced a strategic review to optimise the Company's value and that of its assets, together with the consideration of appropriate sources of finance required to pursue the range of growth opportunities available to it.

Over the past 12 months, Nostrum has achieved a number of significant milestones. These include the mechanical completion of the GTU3 gas treatment unit, the agreement of a gas tolling contract with Ural Oil and Gas LLP, and recent exploration success in the northern part of the Chinarevskoye licence area and proposed acquisition of Stepnoy Leopard.

Following the successful completion of these milestones, the Company has identified a broad range of operational and strategic opportunities for the business to deliver shareholder value, some of which require the investment of further capital in the business. These options include (but are not limited to) further throughput agreements with third party gas suppliers, bolt-on acquisitions in existing and adjacent fields, farming down stakes in some assets to expedite their development, and a corporate transaction. The Company therefore announced that it is launching a process to review these operational and strategic options for Nostrum and its shareholders. No decision has been taken yet, and there can be no certainty that this review of options will result in any agreement(s) or transaction(s) being concluded.

Formal Sale Process

One of the options that will be considered by Nostrum is a sale of the Company. The Takeover Panel has agreed that any discussions with third parties may be conducted within the context of a "formal sale process" (as defined in the City Code on Takeovers and Mergers (the "Takeover Code")) to enable conversations with parties interested in making a proposal to take place on a confidential basis.

It is currently expected that any party interested in participating in the formal sale process will, at the appropriate time, enter into a non-disclosure agreement and standstill arrangement with Nostrum on terms satisfactory to the Board of the Company and on the same terms, in all material respects, as other interested parties. The Company then intends to provide such interested parties with certain information on the Group's business, following which interested parties shall be invited to submit their proposals to Goldman Sachs International. Further announcements regarding timings for the formal sale process will be made when appropriate.

There can be no certainty that an offer will be made, nor as to the terms on which any offer will be made.

The Board of Nostrum reserves the right to alter or terminate the process at any time and in such cases will make an announcement as appropriate. The Board of Nostrum also reserves the right to reject any approach or terminate discussions with any interested party at any time.

Operational and financial performance

Results of operations for the six months ended 30 June 2019 and 2018

	Six months ended 30 June			
In millions of US$ (unless mentioned otherwise)	2019 (unaudited)	2018 (unaudited)	Variance	Variance, %
Revenue	**174.2**	191.5	*(17.3)*	*(9.0)%*
EBITDA*	**110.2**	113.2	*(3.0)*	*(2.7)%*
EBITDA margin	**63.3%**	59.1%	*4.2%*	–
	31 June 2019 (unaudited)	**31 Decmber 2018 (audited)**	**Variance**	**Variance, %**
Cash Position	**120.8**	121.8	*(1.0)*	*(0.8)%*
Net Debt**	**1,012.0**	1,007.8	*4.2*	*0.4%*

* See EBITDA reconciliation at the end of the section.
** Long-term borrowings plus short-term portion of long-term borrowings less cash and cash equivalents

General note

For the six months ended 30 June 2019 (the "reporting period") total comprehensive income amounted to US$5.7 million, an increase of US$7.6 million from US$1.9 million total comprehensive loss for H1 2018. The income is mainly driven by lower operating and finance costs as well as absence of losses on derivative financial instruments as compared to previous comparative period, which was partially offset by higher income tax. These are explained in more detail below.

Overview

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the six months ended 30 June 2019 and 2018 in US Dollars and as a percentage of revenue.

	Six months ended 30 June			
In thousands of US dollars	2019 (unaudited)	% of revenue	2018 (unaudited)	% of revenue
Revenue	**174,187**	100.0%	*191,494*	*100.0%*
Cost of sales	**(79,770)**	45.8%	*(82,766)*	*43.2%*
Gross profit	**94,417**	54.2%	*108,728*	*56.8%*
General and administrative expenses	**(9,732)**	5.6%	*(13,538)*	*7.1%*
Selling and transportation expenses	**(23,952)**	13.8%	*(25,679)*	*13.4%*
Taxes other than income tax	**(12,019)**	6.9%	*(14,383)*	*7.5%*
Finance costs	**(22,081)**	12.7%	*(29,206)*	*15.3%*
Employee share options - fair value adjustment	**(297)**	0.2%	*1,684*	*0.9%*
Foreign exchange gain/(loss), net	**609**	0.3%	*(130)*	*0.1%*
Loss on derivative financial instruments	**–**	0.0%	*(11,962)*	*6.2%*
Interest income	**39**	0.0%	*140*	*0.1%*
Other income	**1,270**	0.7%	*1,420*	*0.7%*
Other expenses	**(1,203)**	0.7%	*(5,155)*	*2.7%*
Profit before income tax	**27,051**	15.5%	*11,919*	*6.2%*
Income tax expense	**(20,941)**	12.0%	*(13,826)*	*7.2%*
Profit/(loss) for the period	**6,110**	3.5%	*(1,907)*	*1.0%*
Other comprehensive (loss)/income	**(427)**	0.2%	*9*	*0.0%*
Total comprehensive income/(loss) for the period	**5,683**	3.3%	*(1,898)*	*1.0%*

Revenue

The Group's revenue decreased by 9.0% to US$174.2 million for the reporting period (H1 2018: US$191.5 million). This is mainly explained by the 7.0% decrease in the average Brent crude oil price from 71.2 US$/bbl during H1 2018 to 66.2 US$/bbl during the reporting period, as well as slight decrease in the sales volumes as shown in the table below, which was primarily due to the increase in condensate in transit as of 30 June 2019 as compared to 31 December 2018, while finished goods volumes stayed approximately on the same level as of 30 June 2018 and 31 December 2017 (see Change in stock within Cost of Sales below for comparison).

The pricing for all the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US$106.4 million, US$47.6 million and US$6.4 million respectively (H1 2018: US$128.5 million, US$37.7 million and US$5.0 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2018 is presented below:

	Six months ended 30 June			
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**	**Variance**	**Variance, %**
Oil and gas condensate	**109,366**	134,664	*(25,298)*	*(18.8)%*
Gas and LPG	**64,821**	56,830	*7,991*	*14.1%*
Total revenue	**174,187**	191,494	*(17,307)*	*(9.0)%*
Sales volumes (boe)	**5,286,972**	5,409,353	*(122,381)*	*(2.3)%*
Average Brent crude oil price (US$/bbl)	**66.2**	71.2		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2018:

	Six months ended 30 June			
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**	**Variance**	**Variance, %**
Revenue from export sales	**121,957**	144,871	*(22,914)*	*(15.8)%*
Revenue from domestic sales	**52,230**	46,623	*5,607*	*12.0%*
Total	**174,187**	191,494	*(17,307)*	*(9.0)%*

Cost of sales

	Six months ended 30 June			
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**	**Variance**	**Variance, %**
Depreciation, depletion and amortisation	**62,034**	57,057	*4,977*	*8.7%*
Payroll and related taxes	**8,701**	10,204	*(1,503)*	*(14.7)%*
Repair, maintenance and other services	**6,214**	8,092	*(1,878)*	*(23.2)%*
Materials and supplies	**2,115**	2,306	*(191)*	*(8.3)%*
Other transportation services	**1,054**	3,483	*(2,429)*	*(69.7)%*
Well workover costs	**683**	1,076	*(393)*	*(36.5)%*
Environmental levies	**69**	236	*(167)*	*(70.8)%*
Change in stock	**(1,226)**	(154)	*(1,072)*	*(696.1)%*
Other	**126**	466	*(340)*	*(73.0)%*
Total	**79,770**	82,766	*(2,996)*	*(3.6)%*

Cost of sales decreased by 3.6% to US$79.8 million for the reporting period (H1 2018: US$82.8 million). The decrease is primarily explained by decreases in payroll and related taxes, repair and maintenance costs and other transportation services, which was partially offset by the increase in depreciation referred to below. On a boe basis, cost of sales did not change materially and amounted to US$15.09 for the reporting period (H1 2018: US$15.30) and cost of sales net of depreciation per boe decreased by US$1.40, or 29.5%, to US$3.35 (H1 2018: US$4.75).

Depreciation, depletion and amortisation increased by 8.7% to US$62.0 million for the reporting period (H1 2018: US$57.1 million). Depreciation is calculated applying units of production method. Increase of depreciation in 2019 in comparison with prior period is a consequence of: 1) the ratio change between the volumes produced and the proven developed reserves; as well as 2) implementation of IFRS 16 effective from 1 January 2019, resulting in recognition of right-of-use assets, and their respective depreciation during 2019, respectively this lead to the decrease in the other transportation costs.

Repair, maintenance and other services decreased by 23.2% to US$6.2 million for the reporting period (H1 2018: US$8.1 million). These expenses include services on repairs and maintenance of the facilities, specifically for the gas treatment facility as well as related spare parts and other materials. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Payroll and related taxes decreased by 14.7% to US$8.7million for the reporting period (H1 2018: US$10.2 million). This mainly resulted from effective implementation of cost optimization and the reduction in the headcount across operations.

Other transportation services decreased by 69.7% to US$1.1 million for the reporting period (H1 2018: US$3.5 million). Such an increase is explained by the recognition of right-of-use assets under IFRS 16, and reflection of these costs in the form of depreciation of these assets as mentioned above.

General and administrative expenses

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)	Variance	Variance, %
Payroll and related taxes	**4,737**	6,832	*(2,095)*	*(30.7)%*
Professional services	**2,258**	3,615	*(1,357)*	*(37.5)%*
Depreciation and amortisation	**925**	978	*(53)*	*(5.4)%*
Insurance fees	**595**	653	*(58)*	*(8.9)%*
Lease payments	**360**	449	*(89)*	*(19.8)%*
Business travel	**264**	360	*(96)*	*(26.7)%*
Communication	**150**	198	*(48)*	*(24.2)%*
Materials and supplies	**67**	74	*(7)*	*(9.5)%*
Bank charges	**62**	95	*(33)*	*(34.7)%*
Other	**314**	284	*30*	*10.6%*
Total	**9,732**	13,538	*(3,806)*	*(28.1)%*

General and administrative expenses decreased by 28.1% to US$9.7 million for the reporting period (H1 2018: US$13.5 million). This was mainly driven by US$2.1 million or 30.7% decrease in payroll and related taxes from US$6.8 million during H1 2018 to US$4.7 million during the six months ended 30 June 2019, as well as US$1.4 million or 37.5% decrease in professional services from US$3.6 million during H1 2018 to US$2.3 million during the six months ended 30 June 2019, as a result of implementation of cost optimization by the Group.

Selling and transportation expenses

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)	Variance	Variance, %
Transportation costs	**6,627**	7,852	*(1,225)*	*(15.6)%*
Loading and storage costs	**5,854**	9,535	*(3,681)*	*(38.6)%*
Marketing services	**5,769**	5,758	*11*	*0.2%*
Depreciation	**2,285**	–	*2,285*	-
Payroll and related taxes	**1,148**	1,191	*(43)*	*(3.6)%*
Other	**2,269**	1,343	*926*	*69.0%*
Total	**23,952**	25,679	*(1,727)*	*(6.7)%*

Selling and transportation expenses decreased by 6.7% to US$24.0 million for the reporting period (H1 2018: US$25.7 million), primarily due to decrease in transportation and loading and storage costs as a result of changes to more favourable delivery terms. Also, part of these costs is reflected as depreciation costs resulting from recognition of right-of-use assets for rented railway tank cars under IFRS 16, which were previously included in transportation costs.

Finance costs

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)	Variance	Variance, %
Interest expense on borrowings	**19,619**	21,931	*(2,312)*	*(10.5)%*
Transaction costs	**–**	6,648	*(6,648)*	*(100.0)%*
Unwinding of discount on lease liabilities	**1,772**	68	*1,704*	*2505.9%*
Unwinding of discount on amounts due to Government of Kazakhstan	**306**	329	*(23)*	*(7.0)%*
Unwinding of discount on abandonment and site restoration provision	**216**	119	*97*	*81.5%*
Other finance costs	**168**	111	*57*	*51.4%*
Total	**22,081**	29,206	*(7,125)*	*(24.4)%*

Finance costs decreased by 24.4% to US$22.1 million for the reporting period (H1 2018: US$29.2 million) mainly due to transactions costs on bonds refinancing incurred in the prior period as well as higher interest capitalization rate, which was slightly offset by finance charges under finance leases of US$1.8 million recognised in accordance with IFRS 16.

Taxes other than income tax

	Six months ended 30 June			
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**	**Variance**	**Variance, %**
Royalties	**6,688**	7,157	*(469)*	*(6.6)%*
Export customs duty	**3,798**	5,559	*(1,761)*	*(31.7)%*
Government profit share	**1,492**	1,587	*(95)*	*(6.0)%*
Other taxes	**41**	80	*(39)*	*(48.8)%*
Total	**12,019**	14,383	*(2,364)*	*(16.4)%*

Royalties, which are calculated based on production and market prices for the different products, decreased by 6.6% to US$6.7 million for the reporting period (H1 2018: US$7.2 million), which correspond to a slight decrease in hydrocarbon sales.

Export customs duty on crude oil decreased by 31.7% to US$3.8 million for the reporting period (H1 2018: US$5.6 million), mainly owing to the relative increase of export sales to CIS countries, which are not subject to export duties.

Government profit share was approximately on the same level amounting to US$1.5 million for the reporting period (H1 2018: US$1.6 million).

Other

There was no *loss/gain on derivative financial instruments* during the reporting period. During H1 2018 the loss on derivative financial instruments amounted to US$12.0 million and related to fair value of the hedging contract covering oil sales. The details of hedging contract and movement in fair value of financial derivative instruments is disclosed in Note 25 of the Interim condensed consolidated financial statements included in this report.

Other expenses decreased to US$1.2 million for the reporting period (H1 2018: US$5.2 million). Such a significant decrease in other expenses is explained by non-recurring loss on disposal of property, plant and equipment and provisions for training during H1 2018.

Income tax expense increased by US$7.1 million to US$20.9 million for the reporting period (H1 2018: US$13.8 million). The increase in income tax expense was primarily driven by higher deferred tax expenses in the current period, because of accelerated tax depreciation of oil & gas assets for tax purposes.

Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2017 Notes and the 2018 Notes) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and H1 2018:

	Six months ended 30 June	
In thousands of US dollars	**2019**	**2018**
Cash and cash equivalents at the beginning of the period	**121,753**	126,951
Net cash flows from operating activities	**116,761**	99,864
Net cash used in investing activities	**(65,038)**	(95,389)
Net cash used in financing activities	**(52,720)**	(3,569)
Effects of exchange rate changes on cash and cash equivalents	**69**	(221)
Cash and cash equivalents at the end of the period	**120,825**	127,636

Net cash flows from operating activities

Net cash flow from operating activities was US$116.8 million for the reporting period (H1 2018: US$99.9 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$27.1 million (H1 2018: US$11.9 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$65.2 million (H1 2018: US$58.0 million), finance costs of US$22.1 million (H1 2018: US$29.2 million), and no effect from derivatives (H1 2018: loss of US$12.0million).
- a US$10.8 million decrease in working capital (H1 2018: US$5.9 million increase) primarily attributable to a decrease in prepayments and other current assets of US$8.6 million (H1 2018: a decrease of US$2.3 million), a decrease in trade payables of US$2.6 (H1 2018: an increase of US$3.4 million) and a decrease in trade receivables of US$6.0 million (H1 2018: an increase of US$8.7 million).
- income tax paid of US$4.4 million (H1 2018: US$5.9 million).

Net cash used in investing activities

Net cash used in investing activities for the reporting period was US$65.0 million (H1 2018: US$95.4 million) due primarily to costs associated with the drilling of new wells of US$34.4 million for the reporting period H1 2018: US$40.4 million), costs associated with the third gas treatment unit of US$24.2 million (H1 2018: US$34.9 million).

Net cash used in financing activities

Net cash used in financing activities during the reporting period made up US$52.7 million, and was mainly represented by the payment of US$43.0 million of the finance costs on the Group's 2017 Notes and 2018 Notes and payment of US$9.6 million under finance lease liabilities recognized in accordance with IFRS 16. Net cash used in financing activities during H1 2018 made up US$3.6 million, which was primarily attributable to the US$38.1 million of the finance costs paid on the Group's Notes, which was offset by net proceeds from issue of 2018 Notes in the amount of US$400 million and the early redemption of 2012 Notes and 2014 Notes totalling US$353.2 million, and payment of the fees and premium paid for the arrangement of these transactions in the amount of US$9.2 million.

Capital commitments

During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$64.4 million (H1 2018: US$94.9 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Primary factors affecting results of operations

The primary factors affecting the Group's results of operations during the reporting period are the following:

Pricing

The pricing for all of the Group's crude oil, condensate, dry gas and LPG is, directly or indirectly, related to the price of Brent crude oil. During the reporting period the price of Brent crude oil experienced significant fluctuations. According to Bloomberg, international Brent oil prices have varied between a low of approximately US$61.8 per barrel and a high of approximately US$80.5 per barrel in the first half of 2018, and between US$54.9 per barrel and US$74.6 per barrel during the reporting period.

	Six months ended 30 June	
	2019	**2018**
Average Brent crude oil price (US$/bbl)	**66.2**	71.2

The Group has a hedging policy whereby it hedges against adverse oil price movements during times of considerable non scalable capital expenditure. As such, with GTU3 mechanically complete as of the end of 2018 and hot commissioning in progress, the Group, while it continues to closely monitor the hedging market, has not entered into any hedging contracts in the first half of 2019.

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract was a zero-cost capped collar with a floor price of US$60.0/bbl. The Group had covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away had been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract matured on 31 December 2018 and was settled in cash on a quarterly basis.

No new hedge agreements were entered into during H1 2019.

Cost of sales

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Nostrum's ability to control costs is critical to its profitability. Nostrum's cost of sales comprises various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortisation costs represent 77.8% of total cost of sales for the reporting period (H1 2018: 68.9%). These costs fluctuate according to the level of Nostrum's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties.

Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility but do not include ongoing repair and maintenance of production and exploration wells. These costs represent 7.8% of the total costs of sales (H1 2018: 9.8%) and fluctuate depending on the planned works on certain objects.

Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 0.9% and 1.3% for the six months ended 30 June 2019 and 2018, respectively.

Finance costs

Finance costs in the reporting period consisted of interest expenses in relation to the 2017 Notes and the 2018 Notes, finance charges under finance leases, as well as unwinding of discount on amounts due to the Kazakh Government and unwinding of discount on abandonment and site restoration liability. Capitalised borrowing costs (including a portion of the interest expense and amortisation of the arrangement fees) amounted to US$26.6 million in the reporting period (H1 2018: US$23.7 million). Non-capitalised interest amounted to US$19.6 million in the reporting period (H1 2018: US$21.9 million).

Royalties, Government share and taxes payable pursuant to the PSA

Nostrum operates and produces pursuant to the PSA. The PSA has, during the periods under review, and will continue to have both a positive and negative effect on Nostrum's results of operations as a result of (i) the tax regime applicable to Nostrum under the PSA (discussed below) (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Nostrum pays to the State and (iv) recovery bonus payable to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Articles 308 and 308-1 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008, in 2010 and again in 2013, Nostrum was required to pay new crude oil export duties introduced by the Kazakh Government. Despite Nostrum's efforts to show that the new export duties were not applicable to it, the State authorities did not accept this position and Nostrum was required to pay the export duties.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from oil and gas sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0% per annum. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, which is between 5% and 25% depending on the nature of the asset. The Kazakhstan Ministry of Energy approved an extension to the Chinarevskoye exploration period on 11 March 2016, with the exploration period extended until 26 May 2018. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Nostrum is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Nostrum is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production (known as Cost Oil) from the sharing arrangement. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties represented 8.4% of total taxes other than income tax for the reporting period (H1 2018: 8.6%). As for the government profit share, it represented 1.9% of total taxes other than income tax for the reporting period (H1 2018: 1.9%).

Alternative performance measures

In the discussion of the Group's reported operating results, alternative performance measures (APMs) are presented to provide readers with additional financial information that is regularly reviewed by management to assess the financial performance or financial health of the Group, or is useful to investors and stakeholders to assess the Group's performance and position. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted IFRS measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity. This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

	Six months ended 30 June	
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**
EBITDA Reconciliation		
Profit before income tax	**27,051**	11,919
Add back:		
Finance costs	**22,081**	29,206
Employee share options - fair value adjustment	**297**	(1,684)
Foreign exchange (gain)/loss, net	**(609)**	130
Loss on derivative financial instrument	**–**	11,962
Payment under derivative financial instrument	**(3,741)**	–
Interest income	**(39)**	(140)
Other expenses	**1,203**	5,155
Other income	**(1,270)**	(1,420)
Depreciation, depletion and amortisation	**65,244**	58,035
EBITDA	**110,217**	**113,163**

Related parties and related party transactions

The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all of its transactions with related parties on terms no less favourable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed in the Note 26 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

Principal risks and uncertainties

Key risks are reviewed by the executive committee and the Board of Nostrum Oil & Gas PLC on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The key risks and uncertainties are unchanged from those disclosed in the Group's 2018 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

Principal financial risks and uncertainties

Description of risk	Risk management
STRATEGIC RISKS	
Business and market environment	
The Group is exposed to various risks related to the market and external business environment, which are out of the Group's control. Such risks include: • The volatility of commodity prices on the markets; • The geopolitical, regional situation affecting the Group's areas of operations; and • Changes in currency exchange rates. Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve. The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit.	The Group uses financial instruments to manage commodity price risks and liquidity risks. See note 25 – Derivative Financial Instruments in the Interim condensed consolidated financial statements for details of the nature and extent of such position(s), and for qualitative and quantitative disclosures of these instruments. In addition, the Group is selling the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017 the Group expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail or pipeline. To mitigate the geopolitical, regional and customer risks, the Group has been strengthening customer relationships through establishing long-term off-take agreements while also looking at possibilities to geographically diversify its customer portfolio. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.
Strategic development initiatives	
The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue, which puts the Group at a significant risk of not meeting shareholder expectations in the event of natural disaster, facilities damage from accidents, crisis and other political influences. Diversification of its activity areas is considered by the Group as a way of minimising this risk while also providing the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital. The Group's strategic initiatives towards diversification of its activity areas including M&A activities and further development projects, such as the GTU3 construction project and the well drilling programme, are subject to customary risks related to delay, non-completion and cost overruns which could impact future production and the Group's performance. In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risks that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.	The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. For the purpose of GTU3 construction, the Group has formed a dedicated experienced project management team and engaged JSC "OGCC KazStroyService". In December 2018 the Group announced mechanical completion of GTU3 and the start of the commissioning process. Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and take into account the status of the GTU3 project and current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.

Description of risk	Risk management
OPERATIONAL RISKS	
Oil and gas reserves and operations	
Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement owing to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks that may lead to a deviation of production volumes from estimated and projected volumes. Unsuccessful drilling activities and failure to find additional commercial reserves could reduce future production of oil and natural gas, which is dependent on the rate of success of drilling activity. Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.	The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers as well as operations and cost monitoring systems, based on which the management oversees the work progress. Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.
Health, safety and environment	
Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents. These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis. The Group is working towards full compliance with ISO 14001 Environmental Management Systems, ISO 45001 Occupational Health & Safety Management System and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits to monitor its compliance and best practice in this area and takes all necessary measures on the basis of the audit recommendations.

Description of risk	Risk management
COMPLIANCE RISKS	
Subsoil use agreements	
As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements owing to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.	The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate, however, uncertainty remains in relation to timing and results of decisions of authorities. The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement, the Group endeavours to have such terms modified and pays any penalties and fines that may apply.
Compliance with laws and regulations	
The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks to which the Group is exposed. The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.	For the purpose of compliance with laws, regulations and rules the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in securities, Anti-Corruption and Bribery Policy and a Whistle-Blowing Policy. The Group also performs periodic updates based on the changes in regulatory requirements and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Description of risk	Risk management
FINANCIAL RISKS	
Tax risks and uncertainties The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.	The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Liquidity risks Forecasting to maintain an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations owing to severe market conditions, etc.	Management and the Board constantly monitor the Group's liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US$50 million.
Financing risks The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.	The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.
CLIMATE CHANGE RISKS	
Climate change Climate change risks is the group of risks including those stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down the demand. The risk of more intense extreme weather events, for example, may lead to the following sub-risks: • Risks of reduced asset operation; • Risks of higher insurance premiums; and • Risks of disruptions to supply chains.	The Group is actively planning and managing projects designed to mitigate certain climate change related risks: • To decrease its exposure to rising fuel prices it retooled drilling rigs to derive more power from electricity rather than diesel; • In operations there is a permanent effort and commitment improve energy efficiency and to reduce flaring, venting and leaks; and • At campsite most of the water the Group utilises now is recycled. Climate change is on the Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.
OTHER RISKS	
Other significant risks Other risks are those that are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation-wide. These include risks related to: • Fraudulent activities; • Cyber security; • The Group's supply chains; • Accounting and reporting management systems; or • The availability of human resources. They may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.	The Group has an Anti-Bribery and Corruption Policy and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and, when necessary, initiate change initiatives to ensure enhancement and integration of certain management systems.

The risks listed above do not comprise all those associated with the Group's business and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group's business. The risks listed above are continuously monitored by the management team and assessed when making business decisions.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

Responsibility statement

To the best of our knowledge

a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and

c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

Signed on behalf of the Board:

Kai-Uwe Kessel	Tom Richardson
Chief Executive Officer	Chief Financial Officer

Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the six months ended 30 June 2019

INDEPENDENT REVIEW REPORT TO NOSTRUM OIL & GAS PLC

Introduction

We have been engaged by Nostrum Oil & Gas plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changed in equity and the related explanatory notes 1 to 29. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP

London

19 August 2019

Interim consolidated statement of financial position

In thousands of US dollars	Notes	30 June 2019 (unaudited)	31 December 2018 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets	4	**50,851**	50,241
Property, plant and equipment	5	**1,949,091**	1,919,662
Right-of-use assets	6	**25,382**	–
Restricted cash	10	**7,141**	7,021
Advances for non-current assets	7	**3,883**	15,466
Total Non-current assets		**2,036,348**	1,992,390
CURRENT ASSETS			
Inventories		**30,446**	29,583
Trade receivables	8	**29,757**	35,732
Prepayments and other current assets	9	**11,399**	20,014
Income tax prepayment		**2,713**	–
Cash and cash equivalents	10	**120,825**	121,753
Total Current assets		**195,140**	207,082
TOTAL ASSETS		**2,231,488**	**2,199,472**
SHARE CAPITAL AND RESERVES	11		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**561,485**	555,456
Total Share capital and reserves		**563,028**	556,999
NON-CURRENT LIABILITIES			
Long-term borrowings	13	**1,097,210**	1,093,967
Lease liabilities, long-term	14	**8,130**	–
Abandonment and site restoration provision		**22,781**	21,894
Due to Government of Kazakhstan		**5,070**	5,280
Deferred tax liability	24	**420,808**	400,981
Total Non-current liabilities		**1,553,999**	1,522,122
CURRENT LIABILITIES			
Current portion of long-term borrowings	13	**35,633**	35,633
Lease liabilities, current portion	14	**17,923**	–
Employee share option plan liability	23	**7**	55
Trade payables	15	**29,262**	52,876
Advances received		**122**	394
Income tax payable		**139**	679
Current portion of due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	16	**30,344**	29,683
Total Current liabilities		**114,461**	120,351
TOTAL EQUITY AND LIABILITIES		**2,231,488**	**2,199,472**

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors.
Signed on behalf of the Board:

Kai-Uwe Kessel
Chief Executive Officer

Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 26 through 43 are an integral part of these consolidated financial statements

Interim consolidated statement of comprehensive income

		Six months ended 30 June	
In thousands of US dollars	Notes	2019 (unaudited)	2018 (unaudited)
Revenue			
Revenue from export sales		**121,957**	144,871
Revenue from domestic sales		**52,230**	46,623
	17	**174,187**	191,494
Cost of sales	**18**	**(79,770)**	(82,766)
Gross profit		**94,417**	108,728
General and administrative expenses	**19**	**(9,732)**	(13,538)
Selling and transportation expenses	**20**	**(23,952)**	(25,679)
Taxes other than income tax	**21**	**(12,019)**	(14,383)
Finance costs	**22**	**(22,081)**	(29,206)
Employee share options - fair value adjustment	**23**	**(297)**	1,684
Foreign exchange gain/(loss), net		**609**	(130)
Loss on derivative financial instruments	**25**	**–**	(11,962)
Interest income		**39**	140
Other income		**1,270**	1,420
Other expenses		**(1,203)**	(5,155)
Profit before income tax		**27,051**	11,919
Current income tax (expense) / benefit		**(1,101)**	215
Deferred income tax expense		**(19,840)**	(14,041)
Income tax expense	**24**	**(20,941)**	(13,826)
(Loss)/profit for the period		**6,110**	(1,907)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**(427)**	9
Other comprehensive (loss)/income		**(427)**	9
Total comprehensive income for the period		**5,683**	(1,898)
Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars)		**6,110**	(1,907)
Weighted average number of shares		**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)		**0.03**	(0.01)

All items in the above statement are derived from continuous operations.

The accounting policies and explanatory notes on pages 26 through 43 are an integral part of these consolidated financial statements

Interim consolidated statement of cash flows

		Six months ended 30 June	
In thousands of US dollars	Notes	2019 (unaudited)	2018 (unaudited)
Cash flow from operating activities:			
Profit before income tax		**27,051**	11,919
Adjustments for:			
Depreciation, depletion and amortisation	**18,19,20**	**65,244**	58,035
Finance costs	**22**	**22,081**	29,205
Employee share option plan fair value adjustment		**297**	(1,684)
Interest income		**(39)**	(137)
Net foreign exchange differences		**(496)**	837
Loss on disposal of property, plant and equipment		**(66)**	1,429
Payments under derivative financial instruments	**25**	**(3,741)**	–
Loss on derivative financial instruments	**25**	**–**	11,962
Provision for expected credit losses		**–**	85
Operating profit before working capital changes		**110,331**	111,651
Changes in working capital:			
Change in inventories		**(862)**	(1,888)
Change in trade receivables		**5,975**	(8,723)
Change in prepayments and other current assets		**8,615**	2,302
Change in trade payables		**(2,634)**	3,381
Change in advances received		**(272)**	(939)
Change in due to Government of Kazakhstan		**(515)**	(515)
Change in other current liabilities		**489**	527
Cash generated from operations		**121,127**	105,796
Income tax paid		**(4,366)**	(5,932)
Net cash flows from operating activities		**116,761**	99,864
Cash flow from investing activities:			
Interest received		**39**	137
Purchase of property, plant and equipment		**(64,403)**	(94,923)
Exploration and evaluation works	**4**	**(674)**	(603)
Net cash used in investing activities		**(65,038)**	(95,389)
Cash flow from financing activities:			
Finance costs paid		**(43,000)**	(38,111)
Issue of notes		**–**	397,280
Repayment of notes		**–**	(353,192)
Fees and premium paid for early repayment and on arrangement of notes		**–**	(9,153)
Payment of lease liabilities		**(9,601)**	(75)
Transfer to restricted cash		**(119)**	(207)
Net cash used in financing activities		**(52,720)**	(3,569)
Effects of exchange rate changes on cash and cash equivalents		**69**	(221)
Net (decrease)/increase in cash and cash equivalents		**(928)**	685
Cash and cash equivalents at the beginning of the period	**10**	**121,753**	126,951
Cash and cash equivalents at the end of the period	**10**	**120,825**	127,636

The accounting policies and explanatory notes on pages 26 through 43 are an integral part of these consolidated financial statements

Interim consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2018 (audited)		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Loss for the period		–	–	–	(1,907)	(1,907)
Other comprehensive income		–	–	9	–	9
Total comprehensive loss for the period		–	–	9	(1,907)	(1,898)
As at 30 June 2018 (unaudited)		**3,203**	**(1,660)**	**262,426**	**412,011**	**675,980**
Loss for the period		–	–	–	(118,788)	(118,788)
Other comprehensive loss		–	–	(904)	–	(904)
Total comprehensive loss for the period		–	–	(904)	(118,788)	(119,692)
Share based payments under LTIP		–	–	711	–	711
As at 31 December 2018 (audited)		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**
Profit for the period		–	–	–	6,110	6,110
Other comprehensive loss		–	–	(427)	–	(427)
Total comprehensive income for the period		–	–	(427)	6,110	5,683
Share based payments under LTIP		–	–	346	–	346
As at 30 June 2019 (unaudited)		**3,203**	**(1,660)**	**262,152**	**299,333**	**563,028**

The accounting policies and explanatory notes on pages 26 through 43 are an integral part of these consolidated financial statements

Notes to the interim condensed consolidated financial statements

1. General

Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

The Parent became the holding company of the remainder of the Group (via its subsidiary then named Nostrum Oil Coöperatief U.A., now named Nostrum Oil & Gas Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014. On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A, 191028 St. Petersburg, Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Members' interests	100
Nostrum Oil & Gas BV	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	9th floor, 20 Eastbourne Terrace, London W2 6LG, United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38, 050031 Almaty, Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.	Kunstlaan 56, 1000 Brussels, Belgium	Ordinary shares	100
Atom&Co LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100
Zhaikmunai LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 30 June 2019, the Group employed 791 employees (H1 2018: 953).

Subsoil use rights terms

Zhaikmunai LLP carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period for the Bobrishovskiy reservoir was extended to 26 August 2018.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019. Zhaikmunai LLP's application for further extension of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021.

Royalty payments

Zhaikmunai LLP is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

Government "profit share"

Zhaikmunai LLP makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

2. Basis of preparation and consolidation

Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the European Union. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for six months ended 30 June 2019 and 2018 is unaudited and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2018 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2018 were approved by the Board of directors on 25 March 2019 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group. The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards and interpretations effective as of 1 January 2019. None of the amendments that are effective as of 1 January 2019 had significant impact on the Group's interim condensed consolidated financial statements, except for adoption of IFRS 16 Leases as described below.

Standards issued, but not yet effective, as at 1 January 2019, have not been adopted early by the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, whereby the lease liability and corresponding right-of-use asset are based on future rentals as determined under the standard.

Notes to the consolidated financial statements CONTINUED

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

In thousands of US dollars	
Total operating lease commitments disclosed at 31 December 2018	10,848
Service agreements contracts reassessed as lease agreements under IFRS 16	27,397
Total lease liabilities before discounting	**38,245**
Discount using incremental borrowing rate	(4,061)
Total lease liability as at 1 January 2019	**34,184**

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

In thousands of US dollars	1 January 2019
Right-of-use assets	34,184
Total non-current assets	**34,184**
Total assets	**34,184**
Current portion of long-term liability	17,968
Total current liabilities	17,968
Long-term lease liability	16,217
Total non-current liabilities	16,217
Total equity and liabilities	**34,184**

Impact on the statement of profit or loss (increase/(decrease)) for the three and six months ended 30 June 2019:

In thousands of US Dollars	Three months ended 30 June 2019	Six months ended 30 June 2019
Depreciation expense of right-of-use assets (included in Selling and transportation expenses)	1,143	2,285
Depreciation expense of right-of-use assets (included in Cost of sales)	666	1,324
Depreciation expense of right-of-use assets (included in General and administrative expenses)	46	93
Rent expenses (included in Selling and transportation expenses)	(1,225)	(2,504)
Rent expenses (included in Cost of sales)	(743)	(1,477)
Rent expenses (included in General and administrative expenses)	(56)	(112)
Finance costs	834	1,704
Deferred income tax expense	(189)	(394)
Profit for the period	**476**	**919**

Impact on the statement of cash flows (increase/(decrease)) for the six months ended 30 June 2019:

In thousands of US Dollars	Six months ended 30 June 2019
Net cash flows from operating activities	4,093
Net cash used in investing activities	(5,508)
Net cash used in financing activities	(9,601)

Nature of the effect of adoption of IFRS 16

The Group has contracts including lease components for vehicles, drilling rigs and rail tank cars. Before the adoption of IFRS 16, the Group recognised the expenses classified as lease under IAS 17 at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases or service agreements, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which was estimated at the rate of 11%.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements CONTINUED

Significant judgements relating to leases

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the related right-of-use assets, which include determining the contracts in scope of IFRS 16, and the interest rate used for discounting the future cash flows.

IFRS 16 requires the Group to determine whether a contract is a lease or contains a lease at the inception of the contract. While, the assessment of whether a contract is or contains a lease is usually straightforward. However, judgement is required in applying the definition of a lease to certain arrangements. For example, in contracts for rent of drilling rigs that include significant services determining whether the contract conveys the right to direct the use of an identified asset required significant judgment.

The present value of the lease payment is determined using the discount rate representing the incremental borrowing rate calculated on the basis of the government bond applicable for the same tenor, adjusted by the country risk premium and by the average credit spread of the entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

More detailed information related to the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are shown in Note 6 and Note 14, respectively.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Group determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments had no effect on its ate interim condensed financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendments had no impact on the interim condensed consolidated financial statements.

4. Exploration and evaluation assets

During the six months ended 30 June 2019 the Group had additions to exploration and evaluation assets of US$610 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (H1 2018: US$478 thousand). Interest was not capitalised on exploration and evaluation assets.

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**35,016**	34,406
	50,851	50,241

5. Property, plant and equipment

During the six months ended 30 June 2019 the Group had additions of property, plant and equipment of US$93,703 thousand (H1 2018: US$115,688 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$26,624 thousand (H1 2018: US$23,654 thousand).

See Note 27 for capital commitments.

6. Right-of-use assets

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation	**26,825**	**7,359**	**34,184**
Additions	(326)	65	(261)
Depreciation	(6,711)	(1,830)	(8,541)
Balance at 30 June 2019, net of accumulated depreciation (unaudited)	**19,788**	**5,594**	**25,382**
As at 30 June 2019			
Cost	26,499	7,424	33,923
Accumulated depreciation	(6,711)	(1,830)	(8,541)
Balance, net of accumulated depreciation (unaudtited)	**19,788**	**5,594**	**25,382**

The right-of-use assets and lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The right-of-use assets were recognised based on the amount equal to the lease liabilities.

See Note 14 for lease liabilities.

7. Advances for non-current assets

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
Advances for construction services	**1,653**	13,128
Advances for pipes and construction materials	**412**	520
Advances for other non-current assets	**1,818**	1,818
	3,883	15,466

8. Trade receivables

As at 30 June 2019 and 31 December 2018 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 30 June 2019 and 31 December 2018 there were neither past due nor impaired trade receivables.

Notes to the consolidated financial statements CONTINUED

9. Prepayments and other current assets

As at 30 June 2019 and 31 December 2018 prepayments and other current assets comprised the following:

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
VAT receivable	**4,074**	11,043
Advances paid	**4,873**	5,057
Other taxes receivable	**1,449**	2,949
Other	**1,003**	965
	11,399	20,014

Advances paid consist primarily of prepayments made to service providers.

10. Cash and cash equivalents

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
Current accounts in US dollars	**108,505**	118,903
Current accounts in tenge	**8,553**	1,396
Current accounts in other currencies	**3,754**	1,445
Petty cash	**13**	9
	120,825	121,753

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$ 665 thousand with Sberbank in Kazakhstan and US$ 6,476 thousand with Halyk bank (31 December 2018: US$658 thousand and US$6,363 thousand, respectively), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

11. Share capital and reserves

As at 30 June 2019 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2018 (audited)	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2018 (audited)	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 30 June 2019 (unaudited)	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long Term Incentive Plan ("LTIP") and are held by Intertrust Employee Benefit Trustee Limited, which, in the case of the ESOP, upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP, and in the case of share settled LTIP awards, would transfer shares to the relevant LTIP award holder (although no LTIP awards are currently exercisable). This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

Other reserves of the Group include foreign currency translation reserves accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US$255,459, that arose during the reorganisation of the Group (Note 2).

Distributions

During the six months ended 30 June 2019 and 2018 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 30 June 2019 the book value per share amounted to US$2.99 (31 December 2018: US$2.96).

12. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	Six months ended 30 June	
	2019 (unaudited)	**2018 (unaudited)**
Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars)	**6,110**	(1,907)
Weighted average number of shares	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	**0.03**	(0.01)

13. Borrowings

Borrowings are comprised of the following as at 30 June 2019 and 31 December 2018:

In thousands of US dollars	**30 June 2019 (unaudited)**	**31 December 2018 (audited)**
Notes issued in 2017 and maturing in 2022	**730,167**	727,447
Notes issued in 2018 and maturing in 2025	**402,676**	402,153
	1,132,843	1,129,600
Less amounts due within 12 months	**(35,633)**	(35,633)
Amounts due after 12 months	**1,097,210**	1,093,967

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$560,000 thousand notes (the "2012 Notes") maturing in 2019. On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes. The 2012 Notes paid interest at a rate of 7.125% per year. Interest on the 2012 Notes was payable on 14 May and 13 November of each year, beginning on 14 May 2013. The 2012 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$400,000 thousand notes (the "2014 Notes") maturing in 2019. On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes. The 2014 Notes paid interest at a rate of 6.375% per annum. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014. The 2014 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

Notes to the consolidated financial statements CONTINUED

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Notes), plus accrued and unpaid interest on the 2017 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors' senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors' other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US$390,884 thousand in principal amount of the outstanding 2012 Notes and US$215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$102.60 per US$100 for the outstanding 2012 Notes and US$100.60 per US$100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$40c per US$100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US$12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. In 2017 consolidated financial statements unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed, and fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings. However, with application of IFRS 9 effective from 1 January 2018 the Group has restated the balances of the Notes as of 1 January 2018, whereby for the modified part of the borrowings the Group recognized loss on modification through retained earnings and reserves, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings.

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued US$400,000 thousand notes (the "2018 Notes"). The 2018 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2018 Issuer shall be entitled at its option to redeem all or a portion of the 2018 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2018 Notes), plus accrued and unpaid interest on the 2018 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

The 2018 Notes are jointly and severally guaranteed (the "2018 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2018 Guarantors"). The 2018 Notes are the 2018 Issuer's and the 2018 Guarantors' senior obligations and rank equally with all of the 2018 Issuer's and the 2018 Guarantors' other senior indebtedness.

The issue of the 2018 Notes was used primarily to fund the Call of the 2012 Notes and the 2014 Notes, as described below.

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Nostrum issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest.

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), US$169,116 thousand in principal amount of the outstanding 2012 Notes and US$184,076 thousand in principal amount of the outstanding the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and new liabilities were recognised for issue of the 2018 Notes, since the transaction does not fall under modification guidance under IFRS 9. The unamortised transaction costs and premiums paid on early redemption related to the 2012 Notes and the 2014 Notes amounting to of US$3,636 thousand and US$3,012 thousand, respectively, were expensed in profit and loss (Note 22). Fees and expenses of US$6,484 thousand directly attributable to the issue of 2018 Notes and discount on issue of the notes amounting to US$2,720 thousand were capitalized under the long-term borrowings.

Covenants contained in the 2017 Notes and 2018 Notes

The 2017 and the 2018 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2017 Issuer, the 2018 Issuer, the 2017 Guarantors, the 2018 Guarantors and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

14. Lease liabilities

In thousands of US Dollars	**2019 (unadutied)**
Lease liability as at 1 January	**34,184**
Additions	(302)
Finance charges	1,772
Paid during the period	(9,601)
Lease liability as of 30 June	**26,053**
Less: current portion of Long-term lease liability	17,923
Long-term lease liability as at 30 June	**8,130**

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognized based on the future rentals as determined under IFRS 16.

See Note 6 for right-of-use assets.

Notes to the consolidated financial statements CONTINUED

15. Trade payables

Trade payables comprise the following as at 30 June 2019 and 31 December 2018:

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
Tenge denominated trade payables	**14,963**	20,684
US dollar denominated trade payables	**10,868**	26,951
Euro denominated trade payables	**2,992**	3,702
Russian rouble denominated trade payables	**204**	1,051
Trade payables denominated in other currencies	**235**	488
	29,262	52,876

16. Other current liabilities

Other current liabilities comprise the following as at 30 June 2019 and 31 December 2018:

In thousands of US dollars	30 June 2019 (unaudited)	31 December 2018 (audited)
Training obligations accrual	**11,060**	11,609
Accruals under the subsoil use agreements	**7,932**	7,856
Taxes payable, other than corporate income tax	**5,142**	5,419
Due to employees	**3,847**	2,181
Other current liabilities	**2,363**	2,618
	30,344	29,683

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

17. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the six months ended 30 June 2019 was US$66.2 per bbl (H1 2018: US$71.2 per bbl).

During the six months ended 30 June 2019 the revenue from sales to three major customers amounted to US$106,378 thousand, US$47,598 thousand and US$6,383 thousand respectively (H1 2018: US$128,499 thousand, US$37,724 thousand and US$5,009 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

	Six months ended 30 June	
In thousands of US dollars	2019 (unaudited)	2018 (unaudited)
Oil and gas condensate	**109,366**	134,664
Gas and LPG	**64,821**	56,830
	174,187	191,494

18. Cost of sales

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	 2018 (unaudited)
Depreciation, depletion and amortisation	*62,034*	*57,057*
Payroll and related taxes	*8,701*	*10,204*
Repair, maintenance and other services	*6,214*	*8,092*
Materials and supplies	*2,115*	*2,306*
Other transportation services	*1,054*	*3,483*
Well workover costs	*683*	*1,076*
Environmental levies	*69*	*236*
Change in stock	*(1,226)*	*(154)*
Other	*126*	*466*
	79,770	*82,766*

19. General and administrative expenses

In thousands of US dollars	**Six months ended 30 June** **2019** **(unaudited)**	 **2018** **(unaudited)**
Payroll and related taxes	**4,737**	6,832
Professional services	**2,258**	3,615
Depreciation and amortisation	**925**	978
Insurance fees	**595**	653
Lease payments	**360**	449
Business travel	**264**	360
Communication	**150**	198
Materials and supplies	**67**	74
Bank charges	**62**	95
Other	**314**	284
	9,732	13,538

20. Selling and transportation expenses

In thousands of US dollars	**Six months ended 30 June** **2019** **(unaudited)**	 **2018** **(unaudited)**
Loading and storage costs	**5,854**	9,535
Transportation costs	**6,627**	7,852
Marketing services	**5,769**	5,758
Depreciation	**2,285**	–
Payroll and related taxes	**1,148**	1,191
Other	**2,269**	1,343
	23,952	25,679

Depreciation expense is related to the right-of-use assets recognized under IFRS 16 in respect of the rented rail-tank cars effective from 1 January 2019, the corresponding lease expenses were previously included in transportation costs for the six months ended 30 June 2018.

Notes to the consolidated financial statements CONTINUED

21. Taxes other than income tax

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)
Royalties	**6,688**	7,157
Export customs duty	**3,798**	5,559
Government profit share	**1,492**	1,587
Other taxes	**41**	80
	12,019	14,383

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

22. Finance costs

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)
Interest expense on borrowings	**19,619**	21,931
Transaction costs	**–**	6,648
Unwinding of discount on lease liabilities	**1,772**	68
Unwinding of discount on amounts due to Government of Kazakhstan	**306**	329
Unwinding of discount on abandonment and site restoration provision	**216**	119
Other finance costs	**168**	111
	22,081	29,206

For more information on the transaction costs please see Note 13.

23. Employee share option plan

The Group's Phantom Option Plan was adopted by the board of directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (Note 2).

To date, options relating to 1,225,000 shares remain outstanding (the "Subsisting Options"), 100,000 options with a Base Value of US$4.00 and 1,125,000 options with a Base Value of US$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between the aggregate Base Value of the shares to which the Subsisting Option relates; and their aggregate market value on exercise. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan:

	2019	2018
Price at the reporting date (US$)	**0.6**	1.0
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.8%**	44%
Average risk-free interest rate (%)	**0.6%**	0.8%
Average expected life (years)	**3.7**	10
Option turnover (%)	**10%**	10%
Exercise multiple	**2.0**	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

2017 Long-term incentive plan

In 2017 the Group started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income. The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

As of 30 June 2019 there are 1,112,784 share options outstanding with a grant date of 10 October 2017, for which on 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. In accordance with the management's best estimate 503,847 share options are capable of vesting as of 30 June 2019.

On 28 November 2018 the Company granted a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

The fair value of the equity-settled share options at the valuation date of 23 March 2018 amounted to US$3.88. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	23 March 2018
Price at the valuation date	2.8
Distribution yield (%)	0%
Expected volatility (%)	40.4%
Risk-free interest rate (%)	1.45%
Expected life (years)	10
Option turnover (%)	10%
Exercise multiple	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

Notes to the consolidated financial statements CONTINUED

24. Income tax expense

In thousands of US dollars	Six months ended 30 June 2019 (unaudited)	2018 (unaudited)
Corporate income tax	**624**	395
Withholding tax	**429**	241
Deferred income tax (benefit) / expense	**19,840**	14,041
Adjustment in respect of the current income tax for the prior periods	**48**	(851)
Total income tax expense	**20,941**	13,826

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the six months ended 30 June 2019. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in tenge. Therefore, any change in the US dollar/tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

25. Derivative financial instruments

The movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars		Derivative financial instruments
As at 1 January 2018 (audited)	**current**	–
	non-current	–
Proceeds from sale of hedging contract		–
Loss on derivative financial instruments		(11,962)
As at 30 June 2018 (unaudited)	**current**	(11,962)
	non-current	–
Loss on derivative financial instruments		(425)
Payments under derivative financial instruments		8,649
Reclassification to trade payables upon expiry of the contract		3,738
As at 31 December 2018 (audited)	**current**	–
	non-current	–
As at 30 June 2019 (unaudited)	**current**	–
	non-current	–

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract was a zero-cost capped collar with a floor price of US$60.0/bbl. The Group had covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away had been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract matured on 31 December 2018 and was settled in cash on a quarterly basis.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

26. Related party transactions

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**30 June 2019 (unaudited)**	**31 December 2018 (audited)**
Trade receivables and advances paid		
JSC OGCC KazStroyService	–	11,408

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**30 June 2019 (unaudited)**	**31 December 2018 (audited)**
Trade payables		
JSC OGCC KazStroyService	**1,415**	11,420

During the six months ended 30 June 2019 and 2018 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

On 28 July 2014 the Group entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Group's gas treatment facility (as amended by ten supplemental agreements since 28 July 2014, the "Construction Contract").

	Six months ended 30 June	
In thousands of US dollars	**2019 (unaudited)**	**2018 (unaudited)**
Purchases		
JSC OGCC KazStroyService	**6,290**	8,134

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 June 2019 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$2,139 thousand for the six months ended 30 June 2019 (H1 2018: US$1,904 thousand). There were not payments to key management personnel under ESOP for the six months ended 30 June 2019 (H1 2018: US$– thousand).

27. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2019. As at 30 June 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Notes to the consolidated financial statements CONTINUED

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the Group may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 30 June 2019 the Group had contractual capital commitments in the amount of US$118,697 thousand (31 December 2018: US$131,373 thousand) mainly in respect to the Group's oil field exploration and development activities.

Social and education commitments

As required by the Contract (as amended on 17 May 2019 by, inter alia, Supplement No. 16), the Group is obliged to:

- spend US$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 12 April 2018) require the subsurface user to:

- spend US$ 1,000 thousand for funding of development of Astana city;
- invest at least US$ 12,149 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US$ 133 thousand.
- spend US$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 31 October 2018) require the subsurface user to:

- invest at least US$ 19,688 thousand for exploration of the field during the exploration period;
- spend US$ 201 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 139 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$ 178 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

- invest at least US$ 20,254 thousand for exploration of the field during the exploration period;
- spend US$ 176 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 139 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$ 202 thousand.

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

28. Fair values of financial instruments

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts reasonably approximating their fair values:

	Carrying amount		Fair value	
In thousands of US dollars	**30 June 2019 (unaudited)**	**31 December 2018 (audited)**	**30 June 2019 (unaudited)**	**31 December 2018 (audited)**
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**1,132,843**	1,129,600	**740,640**	722,377
Total	**1,132,843**	1,129,600	**740,640**	722,377

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

29. Events after the reporting period

There were no significant events between the reporting date and the date of publication.